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THE EUROPEAN COMMUNITY AND SRI LANKA

	<u>Pages</u>
I. INTRODUCTION	1
II. DEVELOPMENT OF EEC-SRI LANKA RELATIONS	1
III. CONCLUSION OF THE COMMERCIAL COOPERATION AGREEMENT (CCA)	2
Brief description of the CCA	2
IV. SECTORAL AGREEMENTS	3
1. Textiles	3
2. Handicrafts	3
3. Coir products	3
V. OPERATION OF THE CCA	3
1. Trade cooperation	4
(a) Trade promotion	4
(b) Generalized system of preferences	5
(c) Training	5
(d) Trade	5
2. Economic cooperation	7
(a) Industrial cooperation	7
(b) Energy	7
VI. DEVELOPMENT ASSISTANCE	7
1. Food aid	7
2. Financial and technical assistance	7
VII. VISIT BY EURO-MPs	8
VIII. SOUTH ASIAN REGIONAL COOPERATION	8

X/75/84-EN

April 1984

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The following brief outline of the relations between the Community and Sri Lanka is published on the occasion of the visit to Sri Lanka by a delegation from the European Parliament, from 15 to 22 April 1984

THE EUROPEAN COMMUNITY AND SRI LANKA

I. INTRODUCTION

Sri Lanka, literally the "resplendent isle", had an estimated population of 15 million in 1981, and a population growth rate of 1.7% a year between 1970 and 1981.

Per capita GNP in 1982 stood at \$309. Annual GNP growth at constant prices ran at 1.2% for the period 1970-77, but then rose to 27% for 1977-82.

Such an increase can be put down to the economic reforms initiated by the Government which took office in 1977, following parliamentary elections which resulted in an overwhelming victory for Mr J. R. Jayawardene's United National Party.

The Government followed up its initial programme of economic reforms with additional measures aimed at the further liberalization of the economy, and has sought to ensure adequate incentives for the productive sectors of the economy and to develop a strategy of export-led growth.

Signs that the economy was expanding too rapidly appeared late in 1979. The rate of inflation, for example, climbed to an annual rate of 32%, while construction costs rose by over 50%. The Government responded in early 1980 with a number of corrective measures, including cuts in projects, which reduced inflation to an average of 16% for 1981/82.

A referendum held on 22 December 1982 extended the lifetime of the parliament for a further six years, with the United National Party retaining a considerable majority. This did not prevent an outbreak of racial hostility in July 1983, however, when Sinhalese came into conflict with the sizeable Tamil minority in the north of the country, and despite the government's efforts to normalize the situation, the effects of these tensions are still being felt in the island's economic life.

II. DEVELOPMENT OF EEC-SRI LANKA RELATIONS

Sri Lanka established diplomatic relations with the Community in 1971. Britain's accession to the Community in 1973, and the declaration by the enlarged Community of its intention to develop trade relations with Asian members of the Commonwealth, led Sri Lanka to seek a more formal relationship. In 1974 it requested negotiations with a view to entering into a commercial cooperation agreement (known as a "CCA") along the lines of the one concluded by India in 1973.

III. CONCLUSION OF A COMMERCIAL COOPERATION AGREEMENT

Negotiations duly opened in November 1974, with the head of the Commission delegation describing the CCA as the instrument by which the Community hoped to expand and diversify its trade with developing countries. They were successfully concluded the following month and the new agreement was signed on 22 July 1975.

It came into force on 1 December 1975 for a 5-year period, and is automatically renewed from year to year unless denounced by one of the parties.

Brief description of the CCA

General provisions

The CCA is a non-preferential agreement which seeks to develop trade between the EEC and Sri Lanka "to as high a level as possible" on the basis of comparative advantage and mutual benefit. The two sides undertake, therefore, to "promote the development and diversification" of their trade with each other and to take "all appropriate steps" to this end.

The CCA also provides for economic cooperation, "when linked to trade" and "in the light of developments in their economic policies". This last is a reference to the fact that the Community's jurisdiction does not extend as yet to all areas of economic activity. Cooperation, like the Community itself, must follow an "evolutionary" pattern.

Cooperation is not confined to the activities within the Community and Sri Lanka: the agreement provides that the two sides will try "to increase their cooperation in commercial and related economic matters in third countries, so far as it is in their mutual interest".

Although the CCA is a non-preferential agreement, there are several references to tariff arrangements. The Community and Sri Lanka agree to grant each other most-favoured-nation treatment. In an annex the Community declares its willingness to bind tariff reductions and suspensions already applied autonomously to six products: dessicated coconut; tea; whole pepper for industrial use; cinnamon; cardamum and East Indian kips (calfskin). This commitment was implemented in the course of the last MTN negotiation, the so-called "Tokyo-Round".

In a declaration on tariff adjustments, the Community states its willingness to take Sri Lanka's export interests into account when making improvements to its GSP scheme, and to examine in the Joint Commission the possibilities for further tariff adjustments. Sri Lanka undertakes to make similar adjustments, "taking into consideration its development needs".

Joint Commission

The general supervision and implementation of the CCA has been entrusted to a Joint Commission (on which the Community is represented by the European Commission, assisted by representatives of the Member States). It is required to devise ways of overcoming trade barriers, encouraging economic and commercial cooperation and facilitating exchanges of information and contacts on all relevant subjects.

The Joint Commission also has responsibility for ensuring the proper functioning of any sectoral agreements between the EEC and Sri Lanka.

IV. SECTORAL AGREEMENTS

1. Textiles

The main sectoral agreement is the one dealing with textiles. The old agreement, which ran from 1 January 1978 to 31 December 1982, was replaced from 1 January 1983 with a new version concluded under the third Multifibre Arrangement, which will remain in force until the end of 1986.

The new agreement establishes quotas totalling over 11 million pieces for four textile products regarded as highly sensitive: trousers, shirts, blouses and anoraks. The quotas are higher than those set under the old agreement, and allow for annual growth of 1.5% to 4% depending on the product.

The quota levels and growth rates take into account both the difficulties affecting the textile industry in the Community and the fact that Sri Lanka's youthful garment industry is still a fairly modest supplier, which enables the Community to treat it generously.

2. Handicrafts

In 1970 the Community introduced annual duty-free import quotas for handicrafts from India. This unilateral concession was then extended to Sri Lanka as well, under an agreement concluded in 1971. A similar agreement applying specifically to handloom silk and cotton fabrics was likewise extended to Sri Lanka in 1975.

3. Coir products

A bilateral agreement is in force covering coir products, of which Sri Lanka is a major producer. These products have been imported free of duty since 1978, under the generalized system of preferences (GSP).

V. OPERATION OF THE COMMERCIAL COOPERATION AGREEMENT

After a slow start, the Joint Commission began to pick up momentum after its second session, which was delayed until 1978. The Sri Lankan government was firmly committed by then to developing export-oriented industries, and therefore sought the Community's help for its efforts to attract European partners for joint ventures and promote its exports to the EC.

The Joint Commission has held a number of meetings since then - the fifth took place in Colombo on 26-27 January 1983 - and has been instrumental in bringing about closer cooperation between the parties. Trade promotion and economic cooperation measures have been taken for Sri Lanka's benefit, and the Community has provided financial and other forms of assistance for the country's development.

1. Trade cooperation

(a) Trade promotion

Sri Lanka gets considerable assistance from the Community with the financing of trade promotion measures designed to help its industry. The country is keen to expand exports as a means of improving its balance of trade.

Sri Lanka's external trade

US\$ millions

	<u>1976</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Exports	569	978	1 039	1 011	1 033
Imports	549	1 449	2 035	1 857	1 813
Balance	+ 20	- 471	- 996	- 846	- 780

Trade Centres

Two Sri Lankan Trade Centres (Copenhagen and Düsseldorf) were set up in 1980 with financial assistance from the Community. The Copenhagen centre has succeeded in promoting Sri Lanka's exports to Scandinavia of tea bags, fashion garments, batiks and other goods. The Düsseldorf centre has initiated joint ventures producing a variety of goods including weighing machines, sunglasses, coir products and jewellery, and has also arranged contacts between Sri Lankan and European business and manufacturing concerns, resulting in investments in Sri Lanka in the production of steel plate, floor coverings, and other goods.

Trade fairs and missions

In 1983 the Community subsidized Sri Lanka's participation in trade fairs held in Brussels, Milan and Gothenburg, and also financed Sri Lankan trade missions to Europe to promote sales of coir, wooden tableware and ceramic tiles.

Experts and studies

A considerable proportion of the Community aid goes to provide Sri Lanka with the services of experts in jewellery and leather goods manufacture and an adviser, attached to the Sri Lankan Embassy in Brussels. Approval was also given in 1983 for two market surveys and an export marketing training programme.

(b) Generalized System of Preferences¹

Sri Lanka has been a beneficiary of the Community's GSP since the scheme's inauguration in 1971. At the time, with its underdeveloped manufacturing industry, it was mainly an exporter of unprocessed products (which qualify for duty-free entry), and in the early years was unable to derive much benefit from the preferential concessions available, other than those on agricultural products (product coverage having been expanded in 1974 to include many more such products, some of them of particular importance to Sri Lanka - shrimps, instant tea, coconut oil, dessiccated coconut, Virginia tobacco, spices, cut flowers and canned tropical fruit cocktail). In 1982, 76% of Sri Lanka's agricultural exports were covered by the preferential arrangements.

From 1980 to 1982, the pattern of Sri Lanka's exports began to diversify, with manufactured items accounting for a larger proportion of the total. Over those three years Sri Lanka doubled its exports of industrial products covered by the GSP, including rubber goods, essential oils, and garment accessories. Its uptake of GSP concessions has increased, though it is still far from exploiting these opportunities to the full.

Sri Lanka's exports of textile products covered by the MFA² have increased remarkably, though erratically, from 279 tonnes in 1977 to 1 044 tonnes in 1982. The 1984 GSP "offer" for these products has been updated, with 1981 rather than 1977 as the reference year, resulting in a 19% increase in the ceilings for duty-free imports. But Sri Lanka's GSP uptake on these products remains negligible compared with that for jute and coir products, most of which regularly enter the Community under preferential arrangements.

(c) Training

Between 1979 and 1983 Sri Lanka was allocated five grants for specializations in social statistics, public health and industrial studies and three traineeships in the industrial cooperation and information fields.

In 1983 four Sri Lankan nationals took part in the course on the study and evaluation of rural development projects organized by a specialist institute in Italy.

(d) Trade

The Community is Sri Lanka's main trading partner, accounting for a total of 19% of its external trade. In second place now come the OPEC countries, followed by the USA and Japan.

¹ Under the GSP developing countries' industrial exports, and also some exports of processed agricultural products, can enter the Community duty-free.

² GATT's Multifibre Arrangement.

Sri Lanka's major trading partners (%)

	<u>Exports</u>			<u>Imports</u>		
	<u>1973</u>	<u>1980</u>	<u>1982</u>	<u>1973</u>	<u>1980</u>	<u>1982</u>
Community	15.6	20.1	21.0	19.0	22.0	16.3
China	11.6	5.0	0.8	9.5	2.5	2.3
OPEC	n.d.	14.0	11.0	-	23.5	18.5
USA	6.9	11.1	14.0	9.0	4.4	6.3
Indian sub-continent	8.7	7.3	9.0	6.9	7.7	6.1
Japan	4.7	3.2	5.0	8.8	12.7	14.9

Sri Lanka's main exports to the Community are tea, textiles, rubber and coconuts. Its main imports from the Community are machinery and transport equipment.

The following table shows the patterns of the Community's trade with Sri Lanka from 1973 to 1982:

EEC-Sri Lanka trade (in million ECU)¹

	<u>Community imports</u>	<u>Community exports</u>	<u>Balance</u>
1973	87	78	- 9
1974	130	100	- 30
1975	104	120	+ 16
1976	132	107	- 25
1977	167	115	- 52
1978	147	195	+ 48
1979	181	199	+ 18
1980	205	277	+ 72
1981	222	281	+ 59
1982	251	287	+ 36

¹ 1 ECU = US \$0.86 (March 1984).

2. Economic cooperation

(a) Industrial cooperation

In 1983 the Community launched a programme intended to help companies wishing to invest in Sri Lanka's rubber and jewellery industries. It included seminars, talks with financial institutions and trips to Sri Lanka for European businessmen.

(b) Energy

In 1981 the Community provided technical assistance with the early stages of a medium-term energy programme for Sri Lanka, paying for the services of an adviser seconded to the Sri Lankan government. He is working with the country's authorities to devise ways of lessening dependence on oil imports.

Studies on the use of solar energy for the drying of tea have been undertaken with the Community's help, and their findings are now being put into practice.

It is planned to extend cooperation to other forms of alternative energy, including small-scale hydroelectric schemes and windpower.

VI. DEVELOPMENT ASSISTANCE

1. Food aid

Sri Lanka has been an important beneficiary of the Community's food aid programme since its inception. The following Table shows the steady increase in the quantities supplied annually between 1975 and 1980:

	<u>Cereals</u>	<u>Milk powder</u> (tonnnes)	<u>Butteroil</u>	<u>Sugar</u>
1975	20 000	1 000	250	-
1976	15 000	1 300	160	-
1977	30 000	2 000	200	-
1978	27 000	4 375	200	-
1979	19 000	-	200	-
1980	20 000	500	200	-
1981	32 000	500	200	-
1982	37 000	-	100	367
1983	45 000	-	-	-

It is planned to supply 40 000 tonnes of cereals for 1984.

2. Financial and technical assistance

The Community instituted its rural development programme for developing countries in Asia and Latin America in 1976. This aid is essentially project-oriented, which means that the amount going to any one country depends on the quality of the projects submitted and the extent to which they conform to the Community's own aid guidelines.

The total available for 1976 was 20 million ECU, 2 million ECU of which went to Sri Lanka for a reservoir project near Trincomalee.

Sri Lanka received similar amounts in 1977 and 1978 for agricultural projects in the Mahaweli Ganga region, and 3 million ECU in 1979, for the rehabilitation of coconut plantations following a cyclone.

In 1980, Community aid to Sri Lanka quintupled, 15.4 million ECU being allocated to a major project forming part of the Mahaweli programme, a huge scheme involving dams, hydroelectric power and irrigation, and calling for expenditure over a number of years. A further 20 million ECU is expected to be provided in 1984, to help co-finance local rural development schemes included in the Mahaweli programme.

The above figures refer purely to Community aid, and do not include aid given to Sri Lanka by the Member States, which totalled \$134.8 million in 1980 and \$130 million in 1981. If we compare them with the figures for US aid to Sri Lanka (\$55 million in 1980 and \$31 million in 1981) we see clearly the commitment of the Community as a whole to supporting development in Sri Lanka.

VII. VISIT BY EURO-MPs

An all-party delegation of ten members of the European Parliament will visit Sri Lanka from 15 to 22 April, at the invitation of Sri Lankan Government. Their programme includes talks with members of the Government and working meetings with Sri Lankan parliamentarians.

The delegation will visit the sites of Community-financed development operations, to enable them to see how Community aid is performing.

VIII. SOUTH ASIAN REGIONAL COOPERATION

Sri Lanka is a member of the South Asian Regional Conference (SARC), a new cooperation body whose other members are Bangladesh, Bhutan, India, the Maldives, Nepal and Pakistan.

The SARC members will be working together in fields including economic and social affairs and scientific and technological research, and hope that their cooperation will give them increased weight in international forums.

The Conference was officially inaugurated on 2 August 1983 by a joint statement and communiqué issued after a meeting of foreign ministers in New Delhi.

As a regional grouping itself, the European Community is naturally eager to encourage such cooperation, and is providing a financial contribution to be used for regional energy and transport projects.

EUROPE INFORMATION "EXTERNAL RELATIONS"

The following copies of "European Information" are still available, and may be obtained from:

Directorate-General for Information
Documentation Service, Berl. 2/74 A
Commission of the European Communities
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- 37/80 List of main EEC agreements with other countries
- 40/80 The Community of Ten in figures
- 41/81 The Generalized System of Preferences and the European Community
- 43/81 Spain and the European Community
- 44/81 The European Community's Textiles Trade
- 45/81 The European Community and Bangladesh

- 47/81 The European Community and Japan
- 48/81 The European Community and Sweden
- 49/81 The European Community and Norway
- 52/81 The European Community and Korea
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